

Economic & Revenue Outlook

Presented to
Pullman Chamber of Commerce

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- Revenue collections since our June forecast have come in \$192 million below expectations
- The economic outlook has weakened since June
 - The recovery is expected to be painfully slow
 - Historical data has been revised downward
 - Risk of double-dip is higher, but unlikely
- Mostly due to the weaker economic outlook, revenue collections are now expected to be:
 - For the 09-11 biennium: \$770 million lower
 - For the 11-13 biennium: \$669 million lower
- The level of uncertainty in the baseline forecast is significantly higher



The current state of the economy...not doing much



A pig
state

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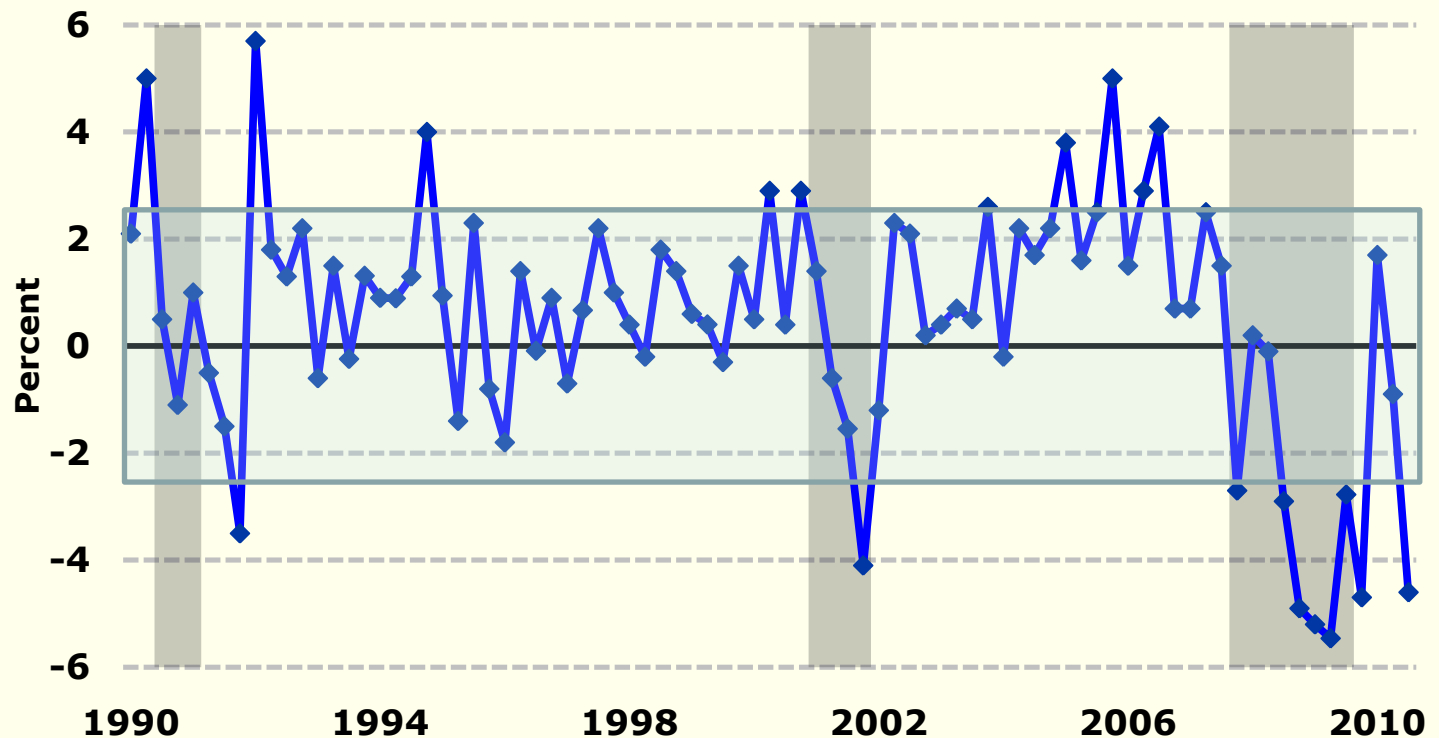
Slide 2

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The revenue forecast variance has increased sharply since our June forecast

Average Adjusted Monthly Variance



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Source: ERFC; data through September 2010



This is the worst recession since WW II

Recession	Peak-to-trough decline		Recession Duration
	Real GDP	Employment	
	<i>percent</i>	<i>percent</i>	<i>months</i>
1948-49	1.6	5.0	11
1953-54	2.5	3.4	10
1957-58	3.1	4.2	8
1960-61	0.5	2.3	10
1969-70	0.2	1.2	11
1973-75	3.2	1.9	16
1980	2.2	2.3	6
1981-82	2.6	3.1	16
1990-91	1.4	1.4	8
2001	0.7	1.7	8
Average	1.8	2.6	10
2007-09	4.1	6.1	18

Source: NBER, ERFC

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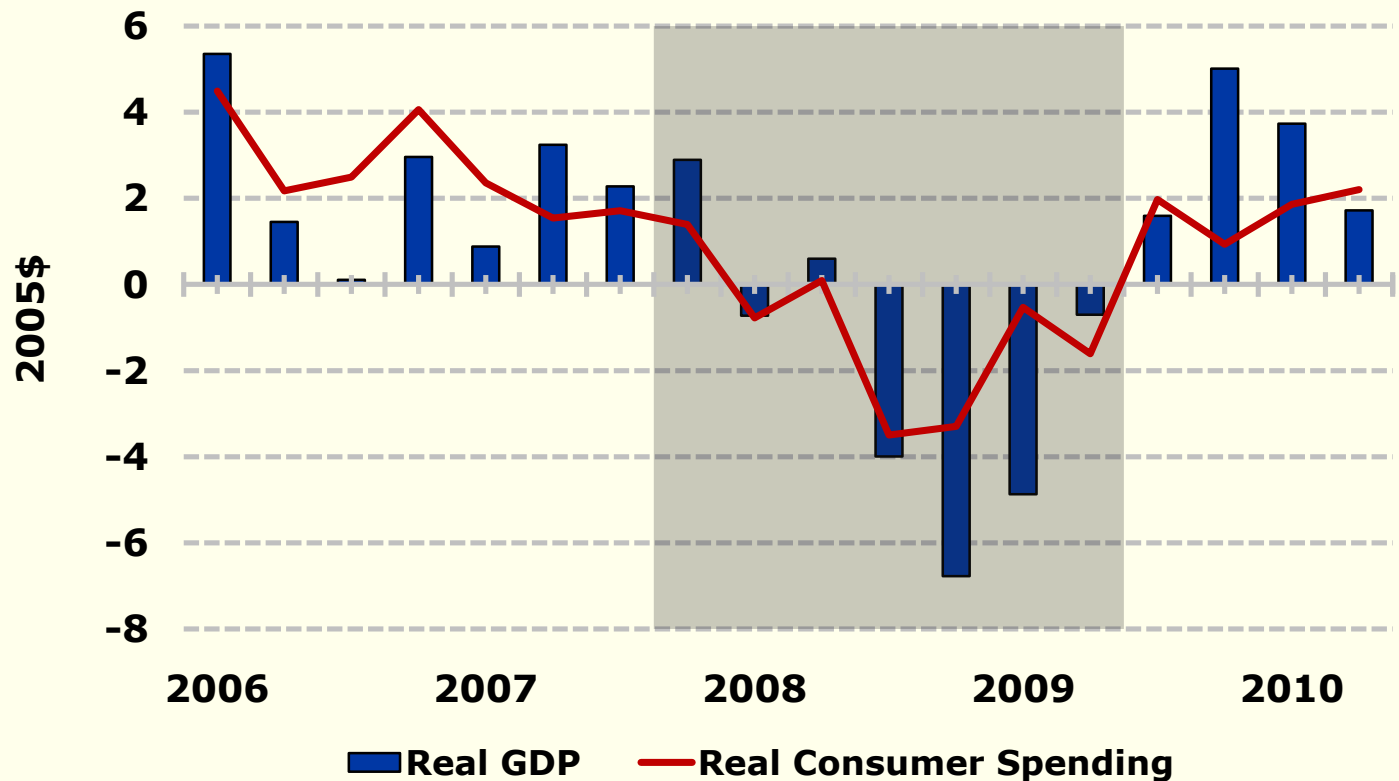
Slide 4

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GDP growth has moderated, and is now well below trend

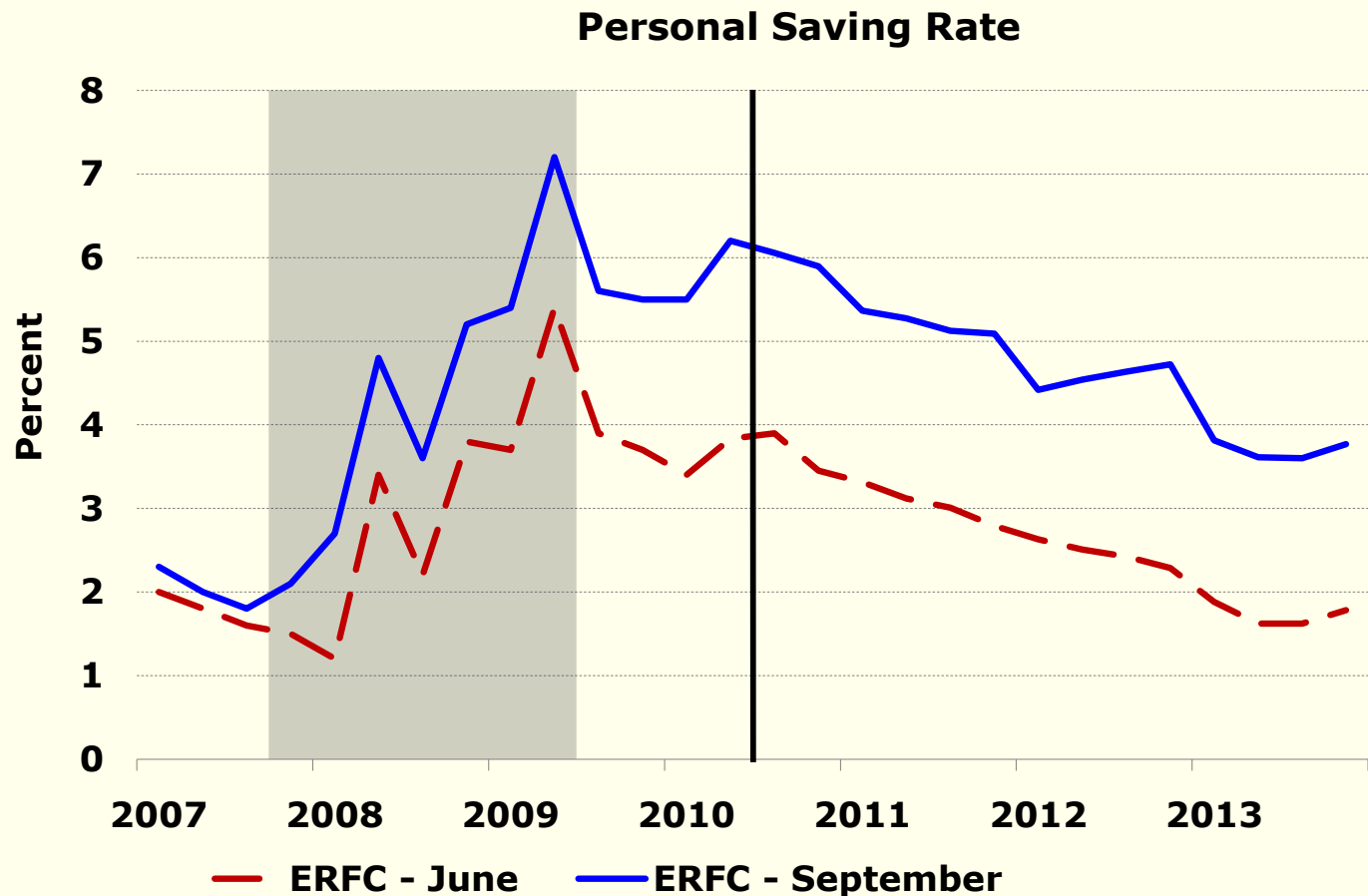
Percent growth, SAAR





The historical savings rate was revised up sharply, affecting our forecast

The saving rate for 2010Q1 was revised from 3.1% of disposable income to 5.5%.



Source: ERFC September 2010 forecast; actual through 2010 Q2

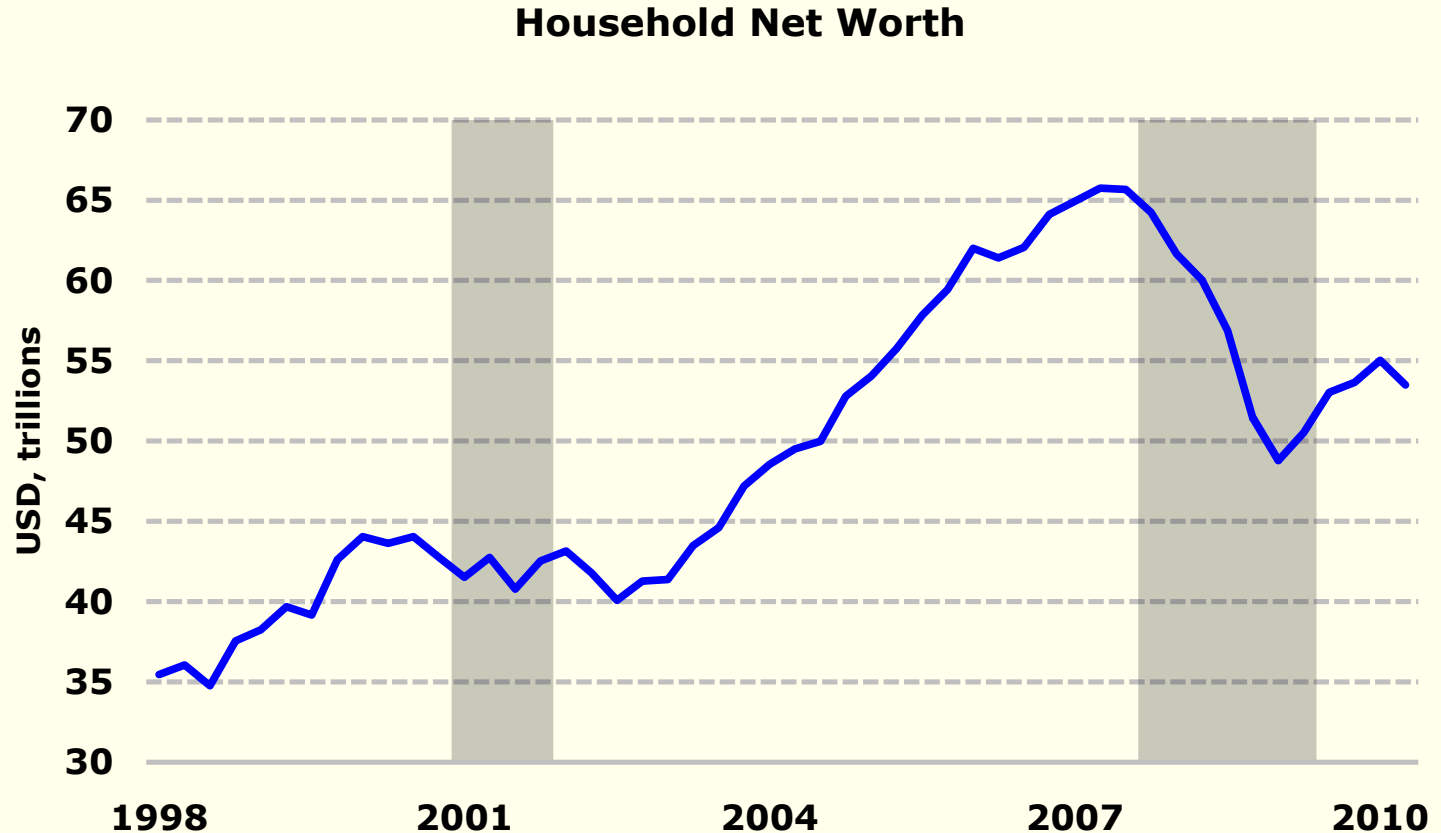
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Household net worth is on the mend, but still well below its peak

\$18 trillion of wealth was lost in this recession

\$6 trillion has been recovered so far



Source: Federal Reserve; data through 2010 Q2

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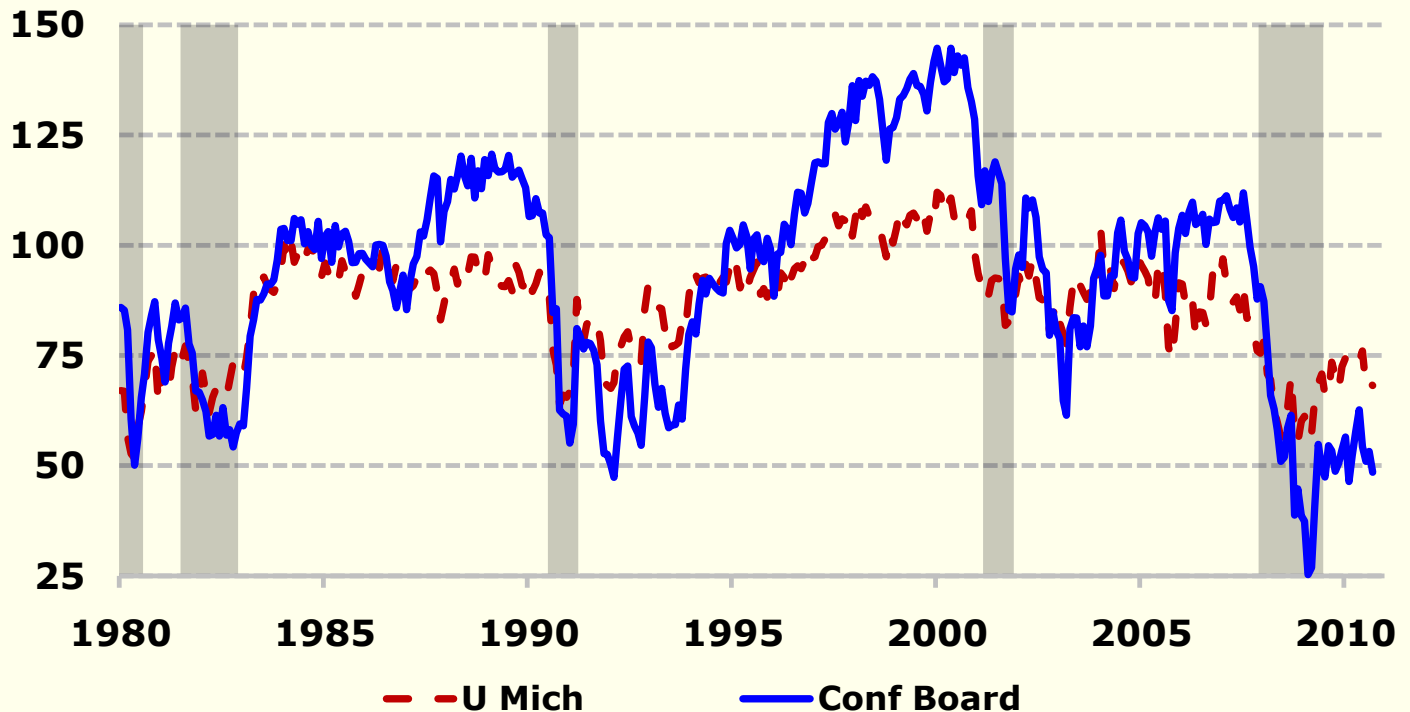


Consumer confidence remains uncertain

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA

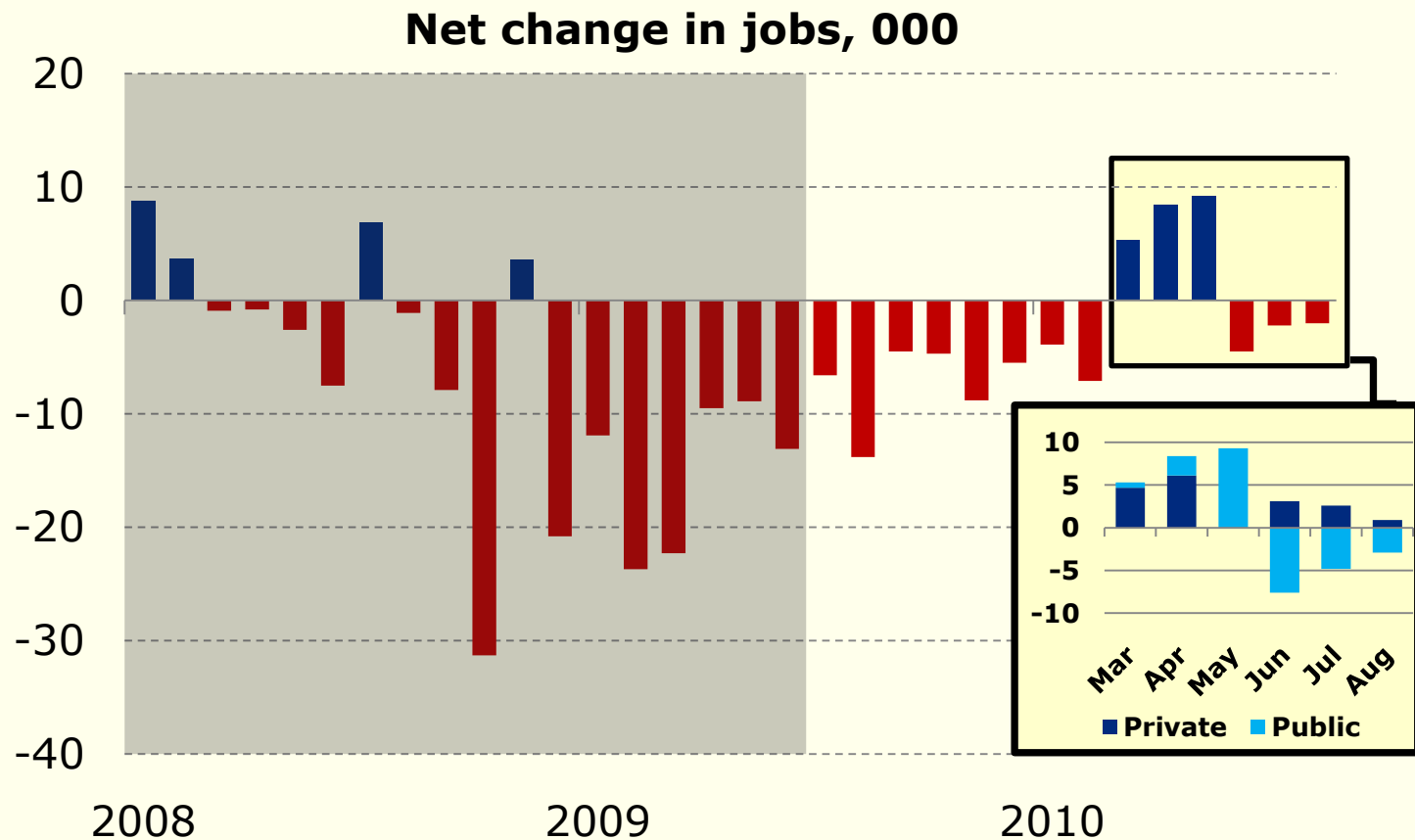


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Source: University of Michigan; Conference Board, data through September 2010



Private sector job growth in WA mirrors the national pattern – weak and hesitant

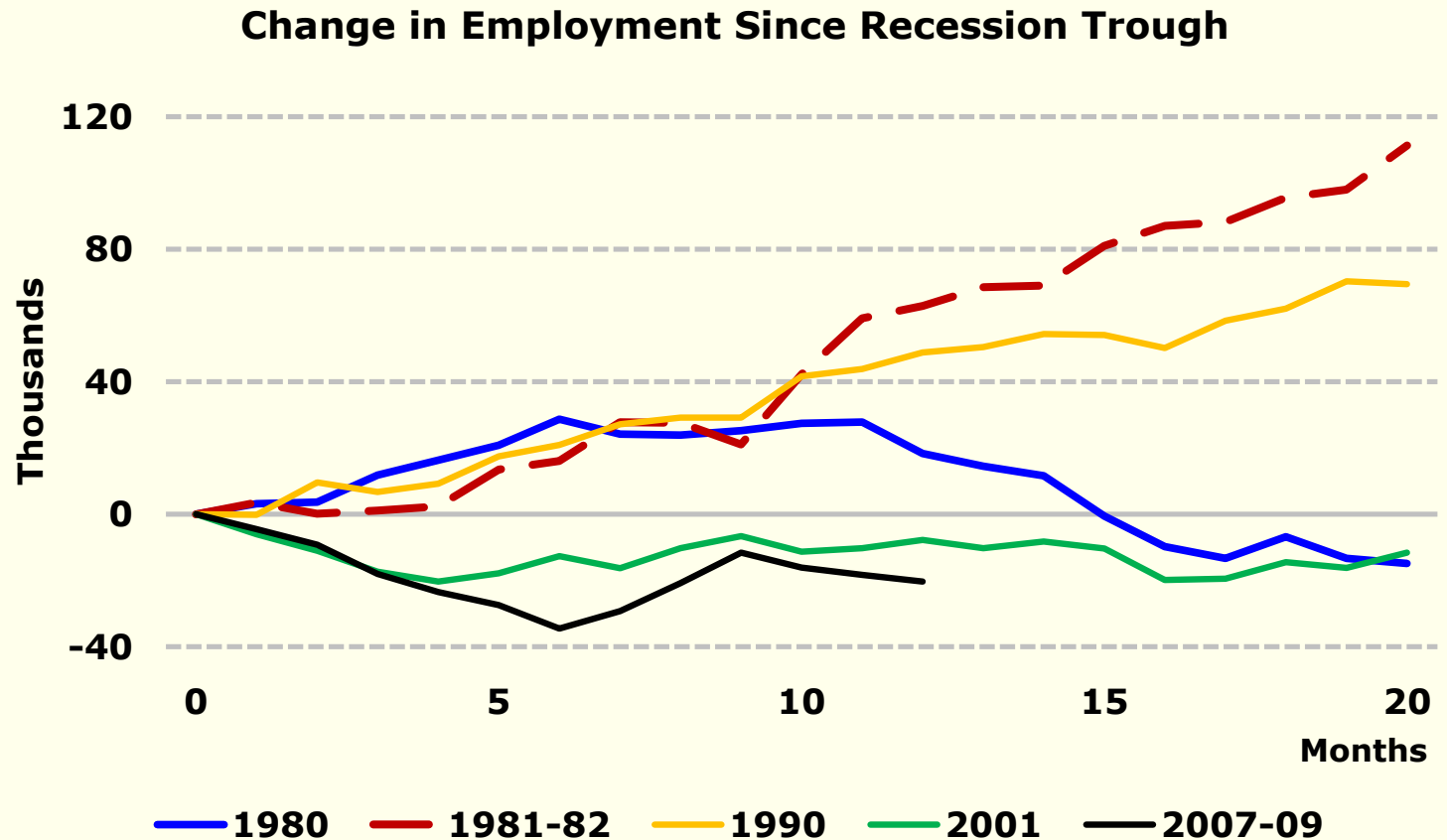


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Source: WA ESD, ERFC; data through August 2010



Employment growth since the trough has been slowest for this recession...





... and the hole we are in is also the toughest

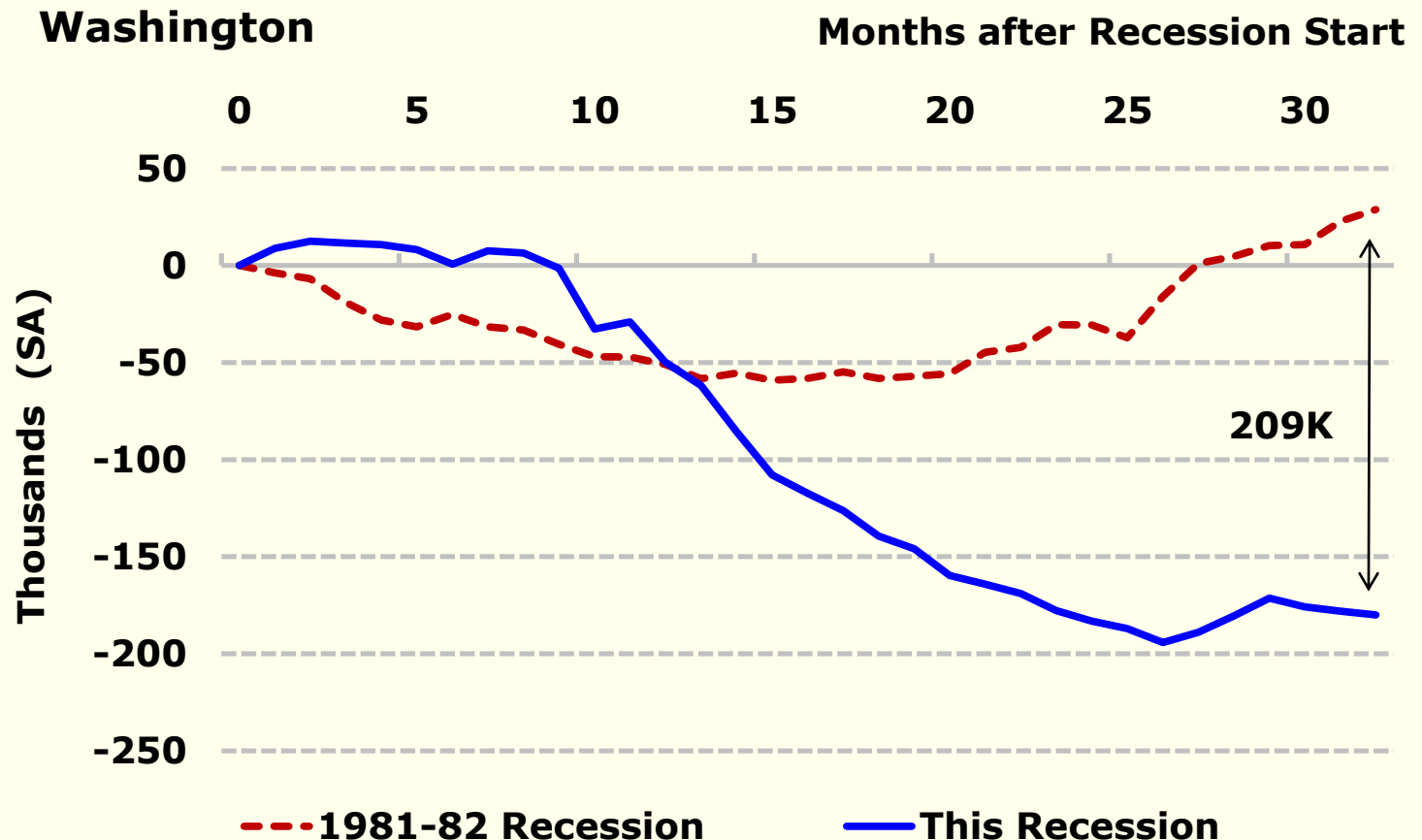
Peak to
trough job
losses

1981-82:

2.9% of
labor force

This time:

5.5% of
labor force



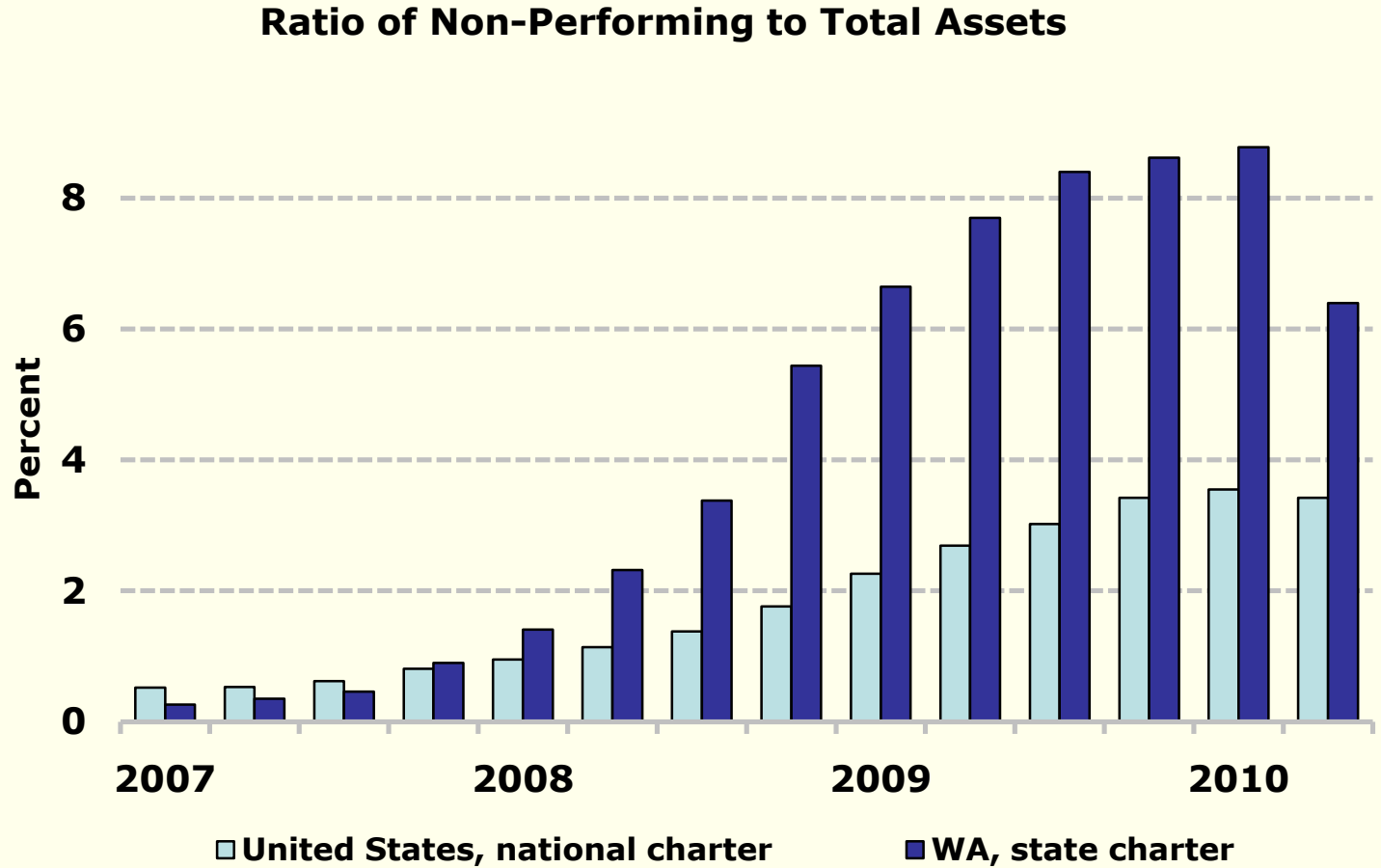
Source: WA ESD, ERFC; data through August 2010

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Asset quality of WA regional banks is improving

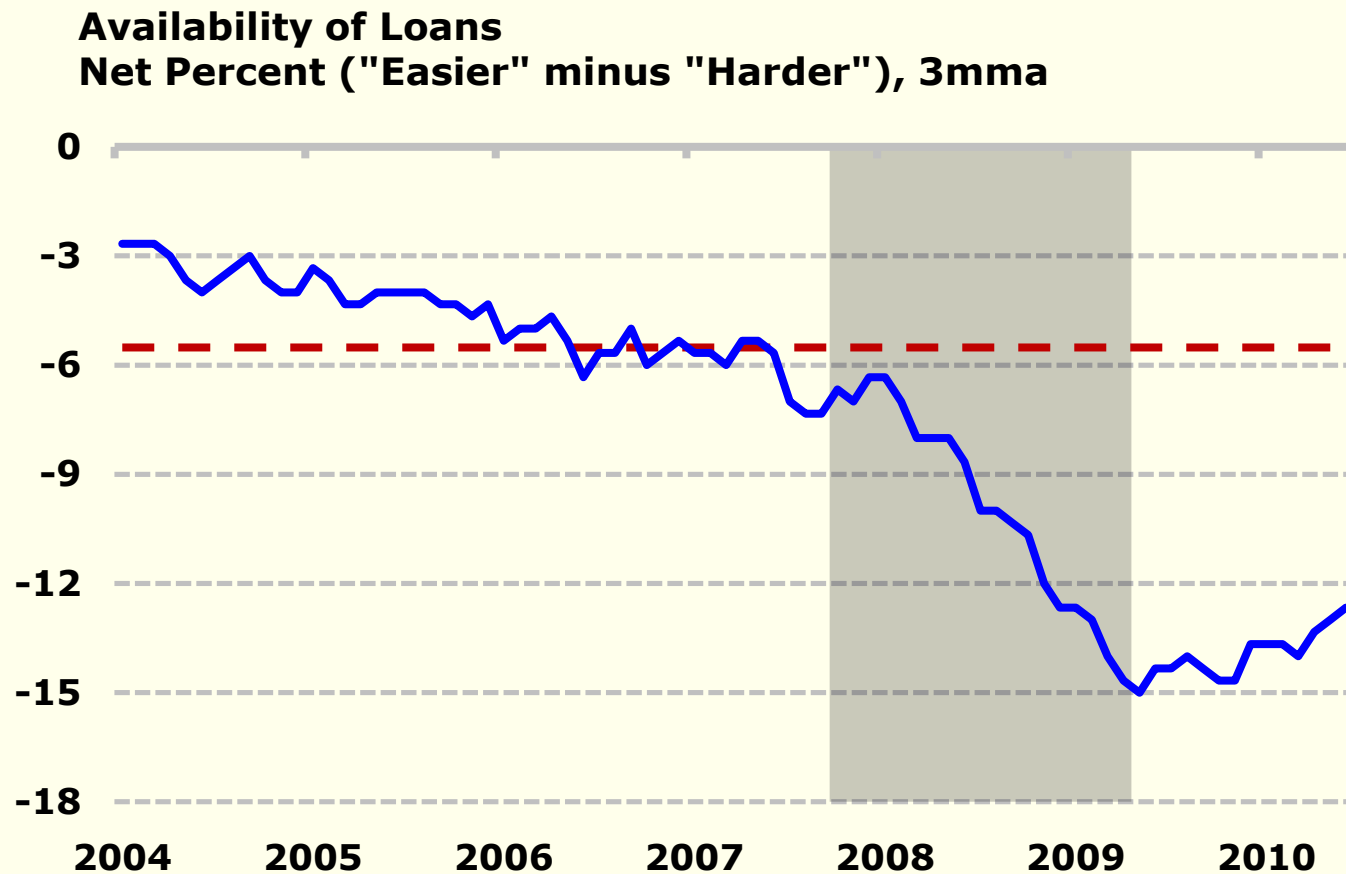
The poorer asset quality of regional banks is due to their disproportionately high exposure to commercial real estate



Source: FDIC, data through 2010 Q2



Credit conditions for small business are improving, but remain tight

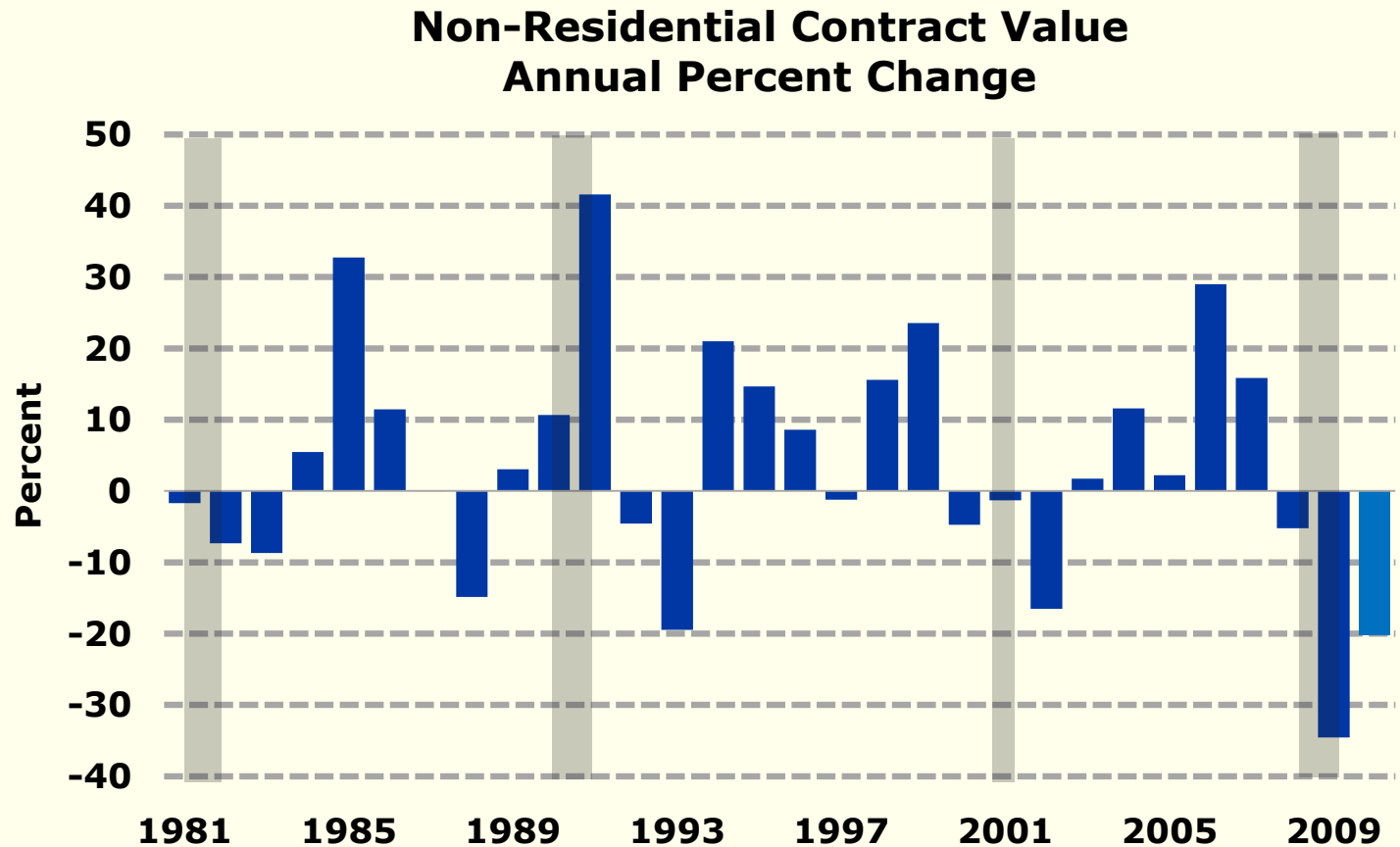


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Source: National Federation of Independent Business; data through August 2010



This is WA's worst downturn in non-residential construction in 30 years

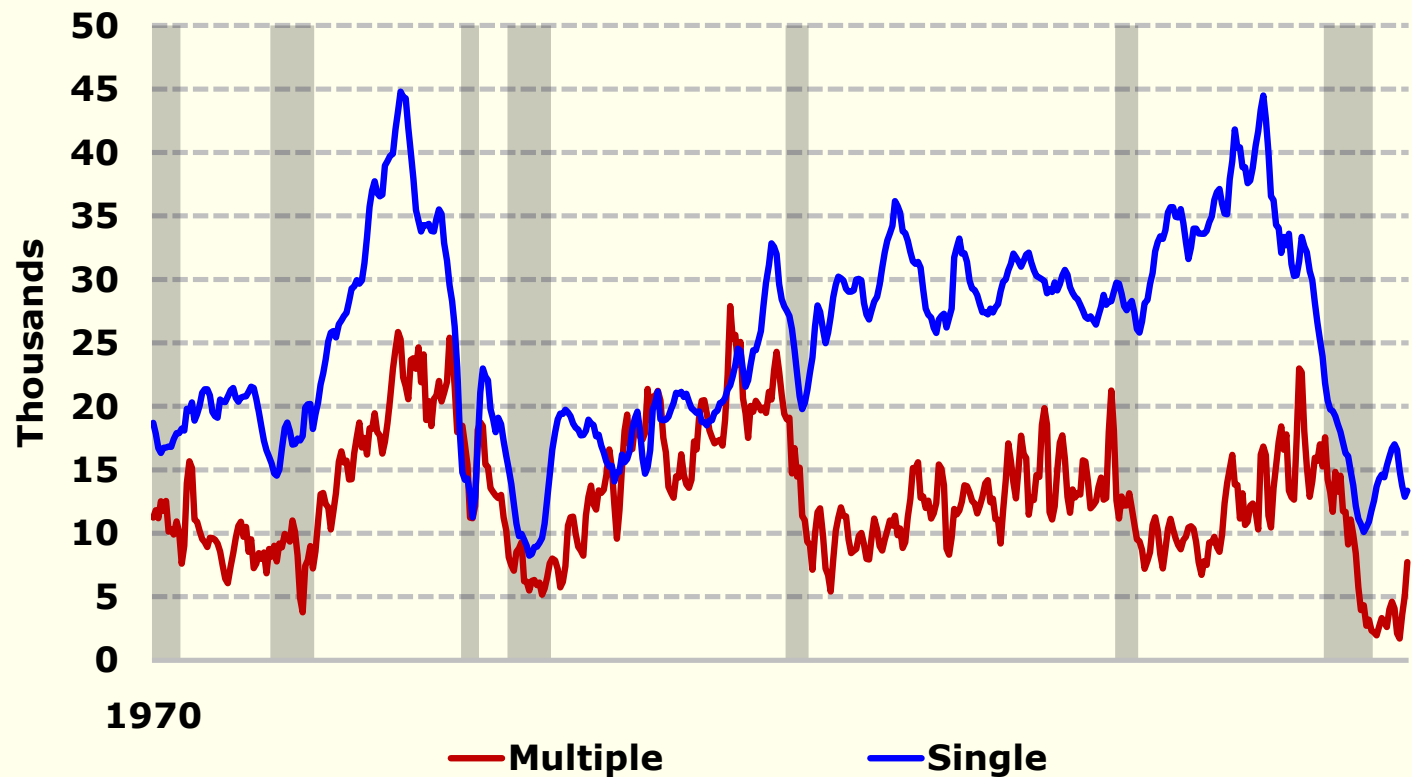


Source: McGraw-Hill Construction, data through August 2010



WA building permits have dropped sharply since the tax credits expired

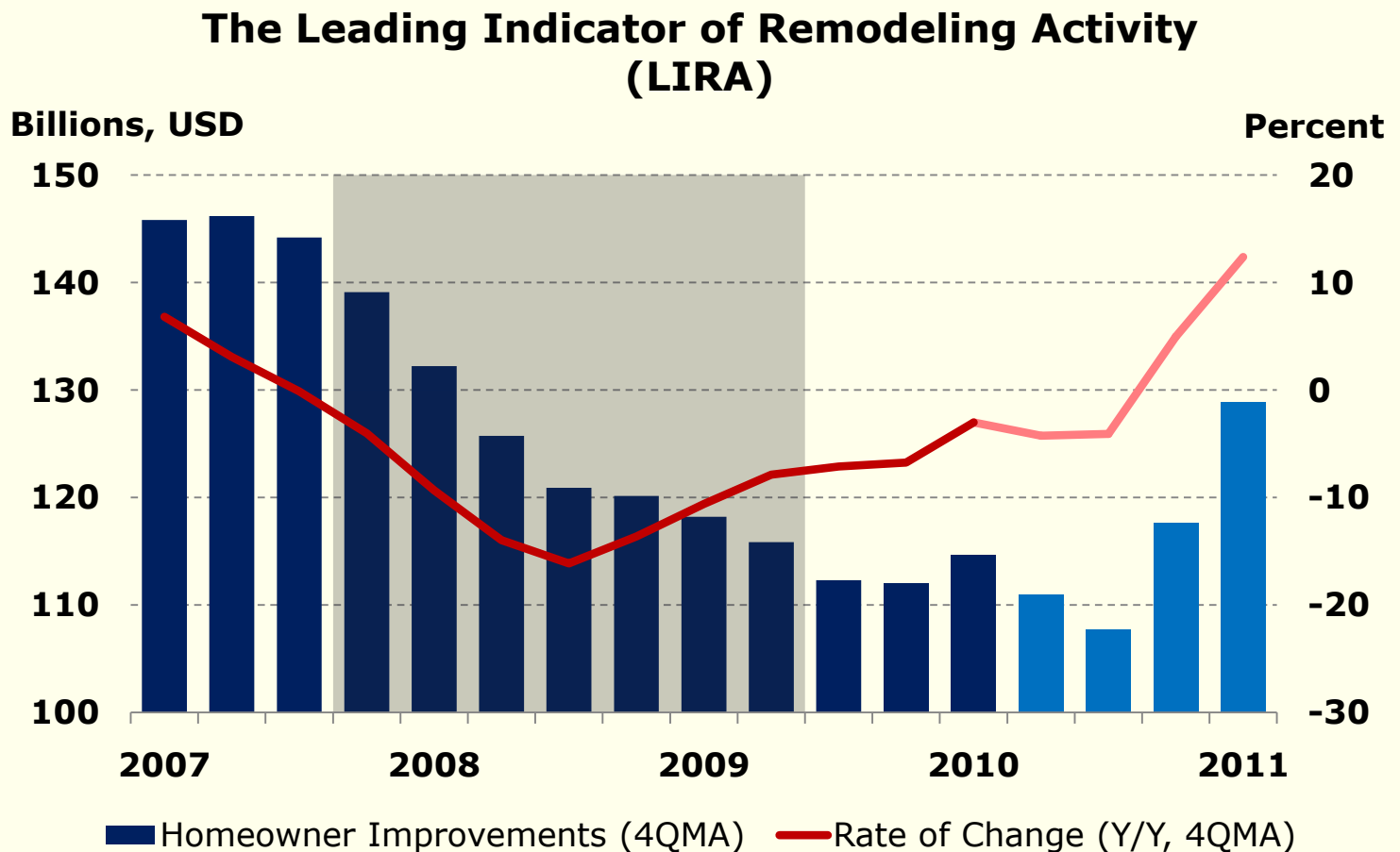
Washington Housing Units Authorized by Building Permits, 3MMA, SAAR



Source: U.S. Census Bureau; data through August 2010



Leading indicator suggests remodeling improvement in late 2010



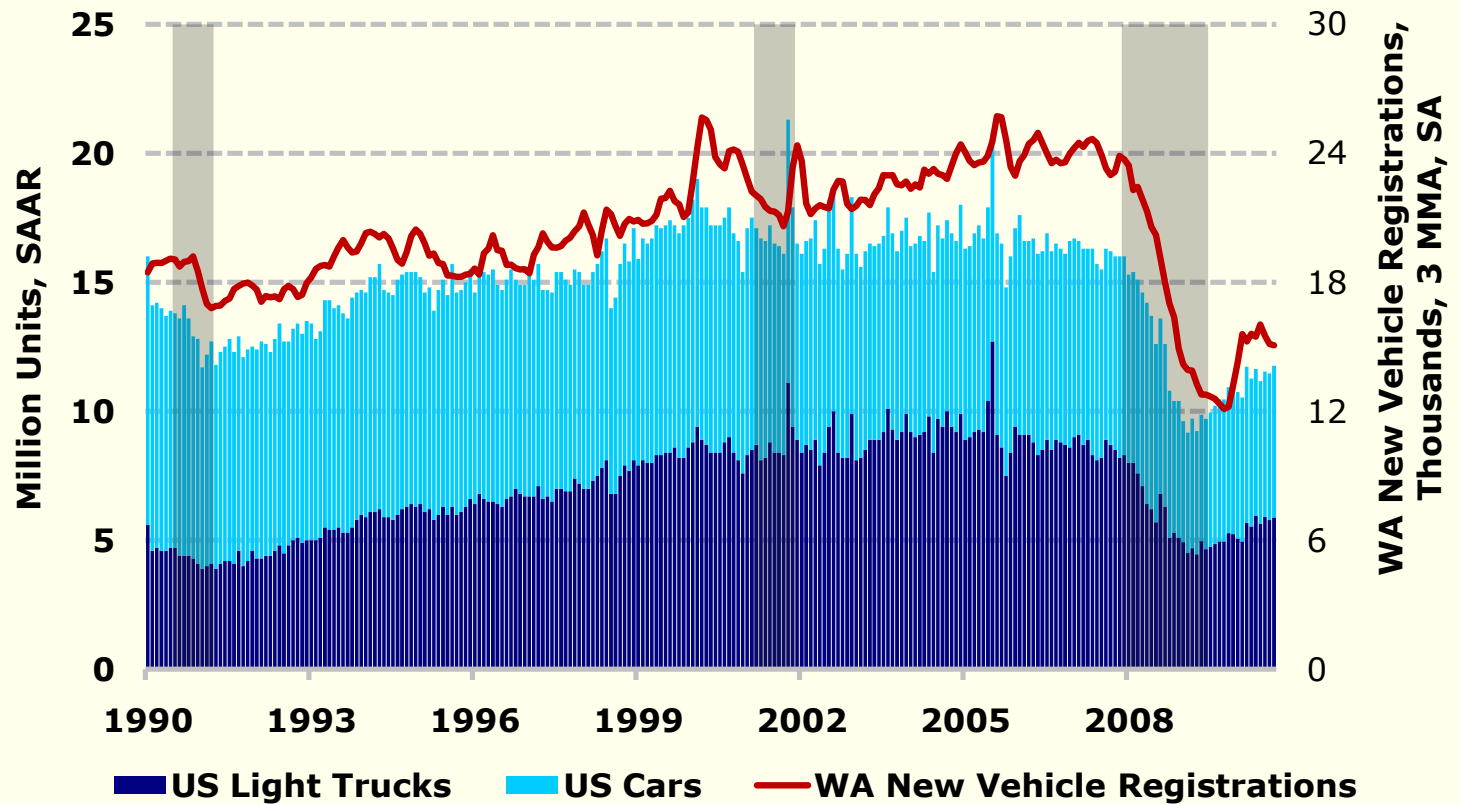
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Source: Joint Center for Housing Studies of Harvard University, actual data through 2010 Q1



Automotive sales are treading water, after recovering from its trough

**Cash for
Clunkers
effect
removed**



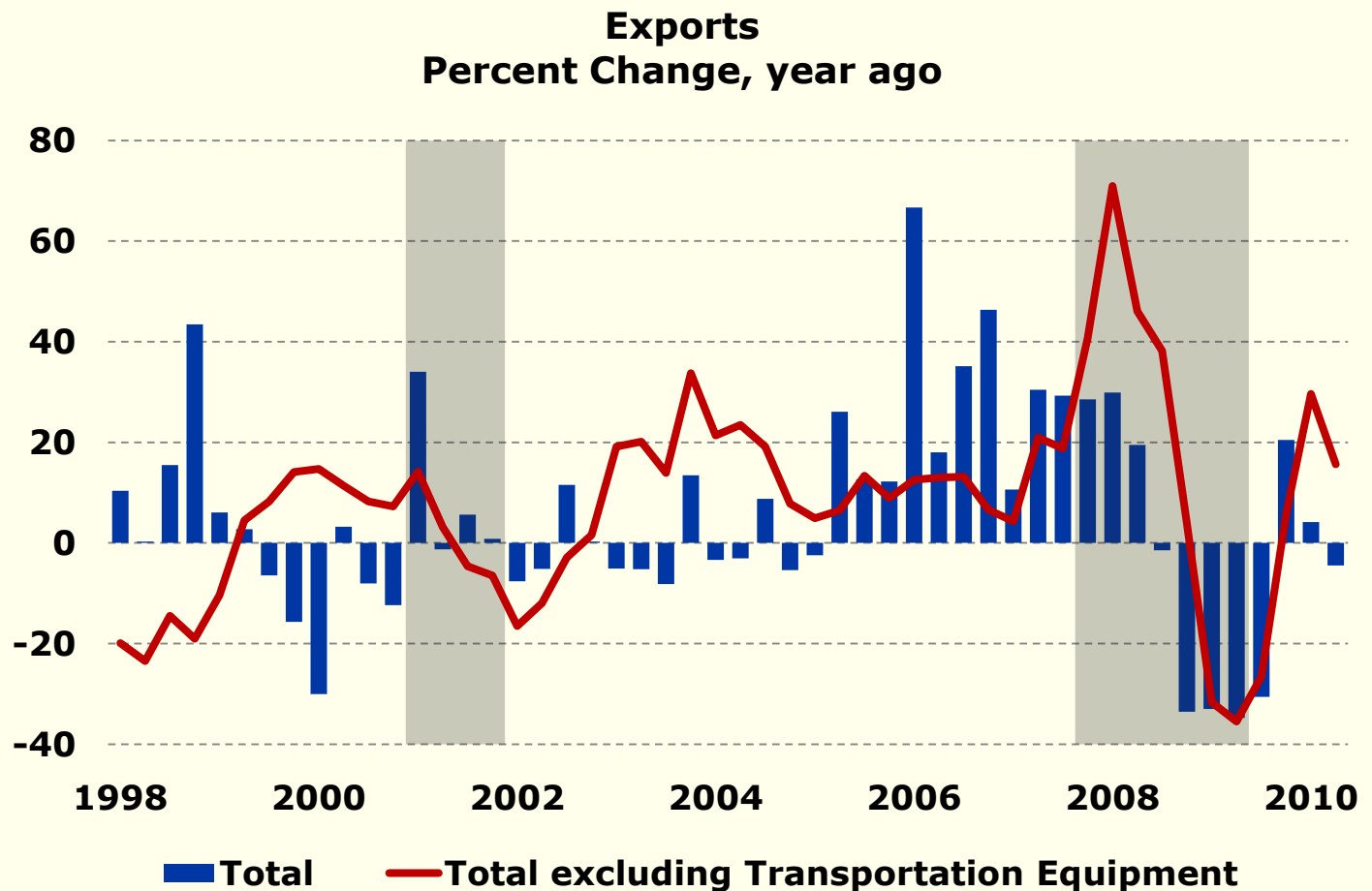
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Source: Autodata Corporation, WA DOL; data through September 2010



WA export growth is slowing, but will help state outperform in the recovery

Exports excluding transport equipment were up 15.6% y-o-y in Q2

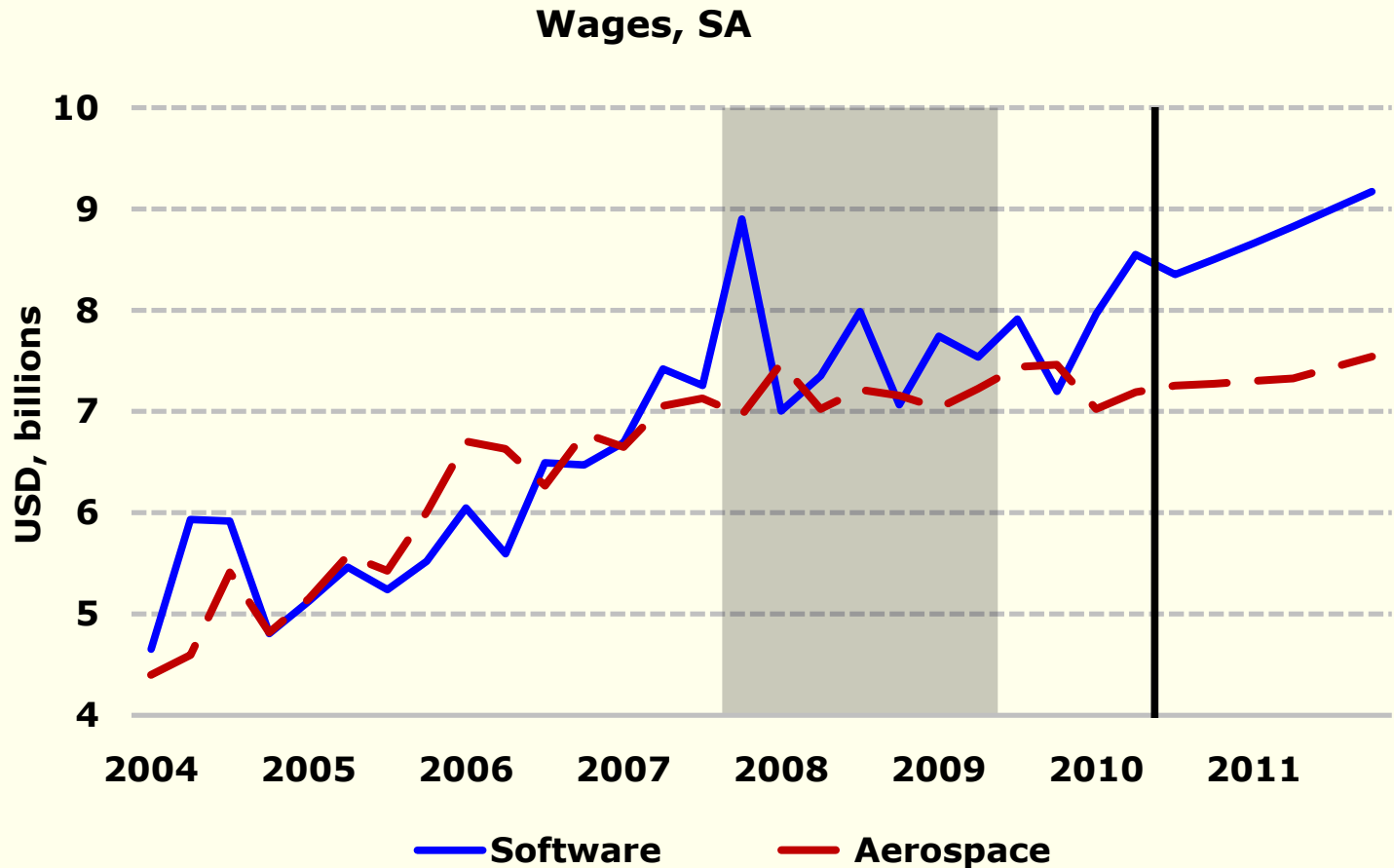


Source: Wiser Trade Data; through 2010 Q2



WA aerospace and software sectors are expected to add \$4 billion in wages through 2013

Through 2013, WA aerospace and software industries will contribute 14% of wage growth, although they represent just 5% of the workforce

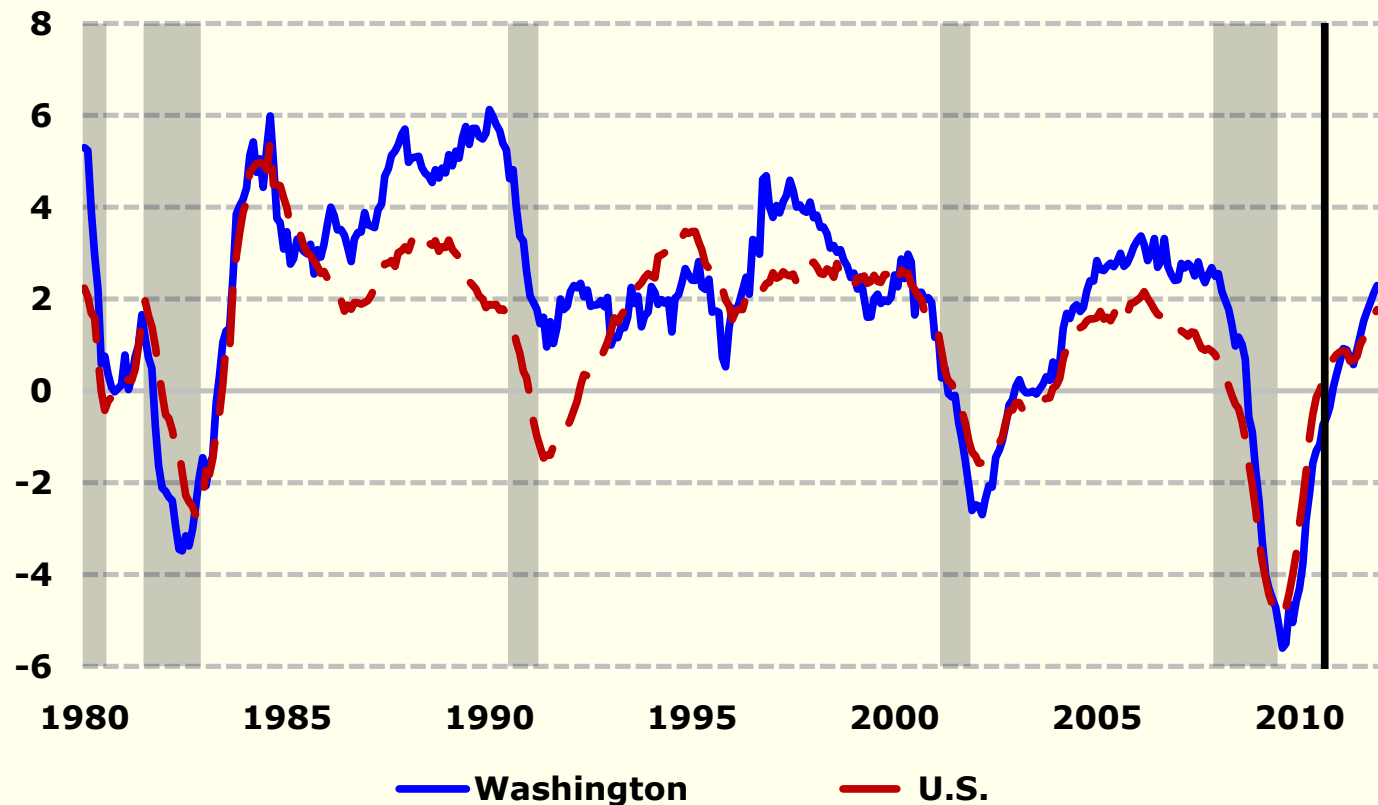


Source: ESD, ERFC September 2010 forecast; actual data through 2010Q2



WA employment lagged the nation in the downturn and will recover at about the same rate as the nation

Percent change, year ago

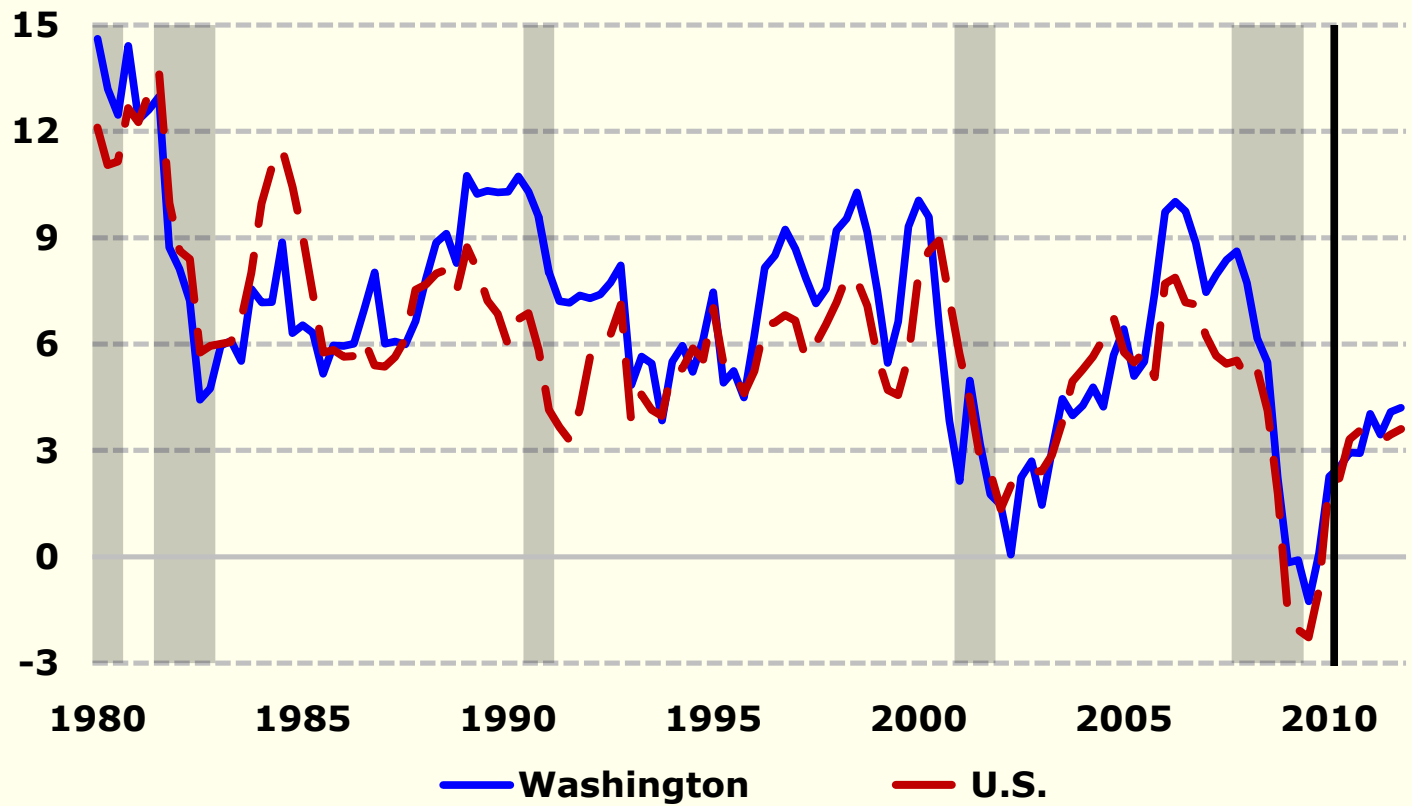


Source: ERFC September 2010 forecast; actual through August 2010



The recovery in WA personal income growth, however is expected to be modestly better than the nation's

Percent change, year ago



Source: ERFC September 2010 forecast; actual data through 2010Q2



Forecast changes: General Fund State, 2009-2011 Biennium

**June
Forecast:**
\$29,282
million

USD millions	September '10 Forecast				
	<u>Collection Experience</u>	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	(\$189)	(\$5)	(\$552)	\$27,055	(\$747)
All other agencies	(\$2)	\$0	(\$21)	\$1,457	(\$23)
Total GF-S	(\$192)	(\$5)	(\$573)	\$28,512	(\$770)

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* Detail may not add to total due to rounding



Forecast changes: General Fund State, 2011-2013 Biennium

USD Millions

**USD
millions**

September '10 Forecast

	<u>June 2010 Forecast</u>	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$32,433	(\$10)	(\$611)	\$31,812	(\$621)
All other agencies	\$1,650	\$0	(\$48)	\$1,602	(\$48)
Total GF-S	\$34,083	(\$10)	(\$659)	\$33,414	(\$669)

* Detail may not add to total due to rounding

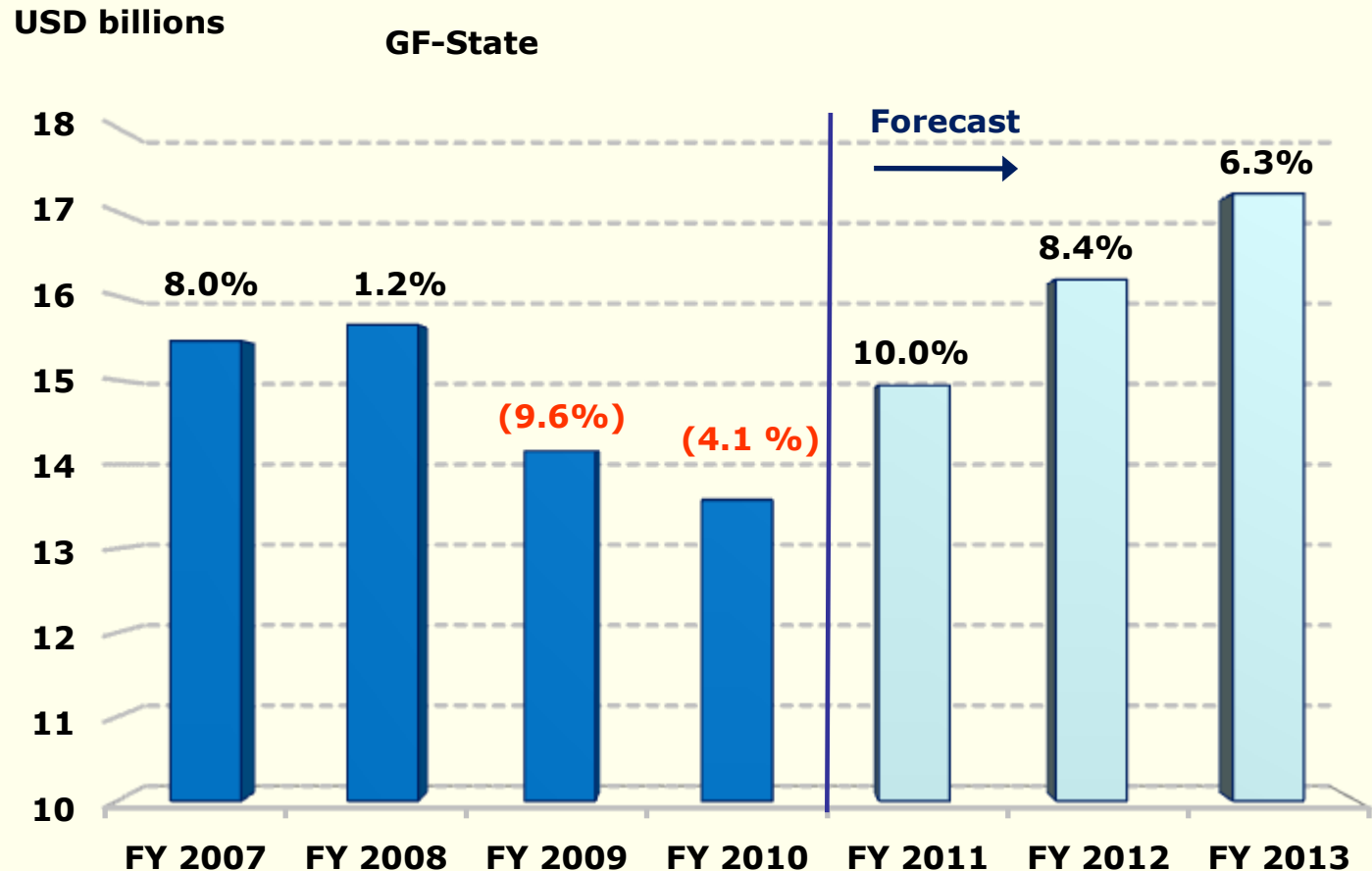


General Fund* forecast by fiscal year

* General Fund & Related Funds for FY 07, 08, and 09

General Fund – new definition, for FY 10-13

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Source: ERFC forecast, September 2010; includes impact of legislative changes



Conclusion

- The forecast for the 2009-11 Biennium is \$770 million lower, due to a weaker economic outlook
- The forecast for the 2011-13 Biennium is \$669 lower for the same reason
- The economic recovery is going to be a slow painful slog, and it is difficult to see what is likely to cause growth to accelerate
- Both the downside risk to the forecast, as well as the level of uncertainty in the baseline is significantly higher than in June
- Our next revenue forecast is scheduled for November 18, 2010 – same time, same place.